K.P.I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Percentage change
	2009	2008	%
Revenue *(HK$'million)*	**2,073.1**	1,777.1	16.7
Gross profit *(HK$'million)*	**249.2**	177.4	40.5
Profit for the year attributable to owners of the Company *(HK$'million)*	**26.3**	247.7	-89.4
Basic earnings per share *(HK cents)*	**1.524**	14.431	-89.4
Cash and cash equivalents *(HK$'million)*	**649.7**	550.4	18.0
Bank loans *(HK$'million)*	**173.2**	169.6	2.1
Current ratio *(Note)*	**1.15**	1.12	2.7

Note:

The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at 31 December.

The board of directors (the “Board”) of K.P.I. Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009, together with the comparative audited consolidated figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	**2009**	2008
		HK$'000	*HK$'000*
Revenue	*4*	**2,073,083**	1,777,062
Cost of sales		**(1,823,908)**	(1,599,691)
Gross profit		**249,175**	177,371
Other revenue and other net income	*4*	**273,924**	250,624
Change in fair value of investment property		**7,939**	812
Gain on remeasurement of interest in jointly controlled entity to fair value		**–**	261,565
Loss on disposal of an associate		**–**	(459)
Selling and distribution expenses		**(182,792)**	(120,371)
Administrative expenses		**(287,769)**	(299,670)
Finance costs	*5*	**(12,471)**	(11,151)
Profit before taxation	*6*	**48,006**	258,721
Income tax	*7(a)*	**(5,392)**	(2,847)
Profit for the year		**42,614**	255,874
Other comprehensive income:			
Exchange differences on translation of financial statements of overseas subsidiaries		**358**	5,961
Change in fair value of available-for-sale financial assets		**16,057**	(7,043)
Other comprehensive income for the year		**16,415**	(1,082)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**59,029**	254,792

	Note	2009 HK$'000	2008 HK$'000
Profit attributable to:			
Owners of the Company		**26,303**	247,686
Non-controlling interests		**16,311**	8,188
		42,614	255,874
Total comprehensive income attributable to:			
Owners of the Company		**42,543**	246,604
Non-controlling interests		**16,486**	8,188
		59,029	254,792
Earnings per share	*9*		
Basic		**HK1.524 cents**	HK14.431 cents
Diluted		**HK1.515 cents**	HK14.332 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment		**70,187**	65,203
Investment property	10	**65,893**	57,954
Land lease premium		**858**	882
Intangible assets		**160,479**	167,431
Goodwill		**377,972**	377,972
Interests in an associate		**–**	–
Long term lease prepayment		**7,516**	8,591
Available-for-sale investments		**38,365**	21,774
		721,270	699,807
Current assets			
Land lease premium		**23**	23
Accounts receivable	11	**43,755**	28,055
Short term loan receivables	12	**52,365**	–
Financial assets at fair value through profit or loss		**2,623**	–
Inventories		**222,949**	219,514
Other receivables, deposits and prepayments		**394,400**	323,264
Tax recoverable	7(b)	**567**	567
Pledged deposits		**174**	339
Cash and cash equivalents		**649,688**	550,385
		1,366,544	1,122,147
Current liabilities			
Tax payable	7(b)	**1,549**	825
Accounts payable	13	**550,785**	457,387
Other payables, deposits received and accruals		**479,042**	370,417
Short term bank loans – unsecured		**152,093**	169,587
		1,183,469	998,216
Net current assets		**183,075**	123,931
Total assets less current liabilities		**904,345**	823,738
Non-current liabilities			
Long-term bank loan		**21,096**	–
Deferred tax liabilities		**42,200**	41,951
		63,296	41,951
NET ASSETS		**841,049**	781,787

	Note	2009 *HK$'000*	2008 *HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**172,590**	172,590
Share premium		**287,362**	287,362
Share based compensation reserve		**16,914**	16,914
Exchange fluctuation reserve		**11,192**	11,009
Fair value reserve		**9,014**	(7,043)
Statutory surplus reserve		**1,104**	747
Retained earnings		**238,657**	212,561
		736,833	694,140
Non-controlling interest		**104,216**	87,647
TOTAL EQUITY		**841,049**	781,787
TOTAL EQUITY PER SHARE		**HK48.73 cents**	HK45.55 cents

Notes:

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKAS 23 (Revised 2007)	Borrowings Costs
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 which is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HK(IFRIC) – Int 13	Customer Loyalty Programmes

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The amendments to HKAS 23, HKFRS 2 and HK(IFRIC) – Int 13 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented *(see note 3)*. Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided. The adoption of amendments to HKFRS 7 only results in additional disclosures.

- The "Improvements to HKFRSs (2008)" comprise a number of amendments to a range of HKFRSs. Of these, the following two amendments have resulted in changes to the Group's accounting policies:

  – As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying amount. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

  – As a result of amendments to HKAS 40, Investment property will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognized in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

New/revised HKFRSs not adopted

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Addition Exemptions of First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 *Effective for annual periods beginning on or after 1 July 2009.*
2 *Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.*
3 *Effective for annual periods beginning on or after 1 January 2010.*
4 *Effective for annual periods beginning on or after 1 February 2010.*
5 *Effective for annual periods beginning on or after 1 January 2011.*
6 *Effective for annual periods beginning on or after 1 July 2010.*
7 *Effective for annual periods beginning on or after 1 January 2013.*

The Company's directors anticipate that the application of the above new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

For the purpose of assessing segment performance and allocating resources between segments, the Group's directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment.

The two reportable operating segments are listed as follows:

(i) Supermarket and convenience store engages in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities through the supermarket and convenience stores of the Group;

(ii) All others comprises, principally, sales of food products and short term loan financing business.

The segment results for the year ended 31 December 2009 and 2008 are as follows:

a) Segment results, assets and liabilities

	Supermarket and convenience store		**All others**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**2,069,450**	1,775,654	**3,467**	1,408	**2,072,917**	1,777,062
Interest revenue	**–**	–	**166**	–	**166**	–
Reportable segment revenue	**2,069,450**	1,775,654	**3,633**	1,408	**2,073,083**	1,777,062
Reportable segment profit before tax	**34,213**	40,583	**4,857**	(4,460)	**39,070**	36,123
Interest income	**4,521**	6,521	**222**	154	**4,743**	6,675
Interest expenses	**(11,009)**	(11,151)	**–**	–	**(11,009)**	(11,151)
Depreciation and amortisation	**(31,665)**	(34,639)	**(59)**	–	**(31,724)**	(34,639)
Income tax	**(4,107)**	(3,649)	**(531)**	–	**(4,638)**	(3,649)
Reportable segment assets	**1,856,898**	1,652,291	**126,387**	47,774	**1,983,285**	1,700,065
Additions to non-current segment assets	**33,376**	35,020	**332**	–	**33,708**	35,020
Reportable segment liabilities	**(1,101,823)**	(1,016,555)	**(88,089)**	(4,023)	**(1,189,912)**	(1,020,578)

b) ***Reconciliations of reportable segment revenues, profit or loss, assets and liabilities***

	2009	2008
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**2,073,083**	1,777,062
Consolidated revenue	**2,073,083**	1,777,062
Profit		
Reportable segment profit derived from Group's external customers	**39,070**	36,123
Unallocated other revenue	**34,061**	265,872
Unallocated head office and corporate expenses	**(25,125)**	(43,274)
Consolidated profit before taxation	**48,006**	258,721
Assets		
Reportable segment assets	**1,983,285**	1,700,065
Unallocated head office and corporate assets	**104,529**	121,889
Consolidated total assets	**2,087,814**	1,821,954
Liabilities		
Reportable segment liabilities	**(1,189,912)**	(1,020,578)
Unallocated head office and corporate liabilities	**(56,853)**	(19,589)
Consolidated total liabilities	**(1,246,765)**	(1,040,167)

c) ***Geographical Information***

The geographical location of customers is based on the location at which the goods are delivered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the PRC, no analysis on revenue from external customers and non-current assets by location are presented.

d) ***Information about major customers***

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31 December 2008 and 2009.

4. REVENUE, OTHER REVENUE AND OTHER NET INCOME

The principal activities of the Group are the retailing operations in supermarket stores and convenience stores, sales of food products and provision of short term financing services.

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts in supermarket and convenience stores and sales of food products and financial service income and interest income arising on provision of short term financing services in short term financing business during the year.

The Group's revenue, other revenue and other net income for the year arose from the following activities:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Revenue		
Supermarket chain operations	**1,904,483**	1,775,654
Convenience store chain operations	**164,967**	–
Sales of food products	**671**	1,408
Interest income on provision of short term financing services	**166**	–
Short term financing services charge income	**2,796**	–
	2,073,083	1,777,062
Other revenue		
Bank interest income	**4,786**	7,126
Other interest income	**–**	1,749
Total interest income on financial assets not at fair value through profit or loss	**4,786**	8,875
Rental receivable from operating leases less direct outgoings	**6,114**	4,456
Dividend income from unlisted investment	**–**	304
Dividend income from listed investments	**442**	328
Reversal of impairment loss on receivables	**16,653**	5,465
Income from government subsidies	**4,722**	2,583
Gross rental income from leasing of shop premises	**48,838**	39,041
Promotion and store display income from suppliers	**175,714**	173,818
Others	**11,396**	10,937
	268,665	245,807
Other net income		
Gain on disposal of financial assets at fair value through profit or loss	**3,692**	–
Gain on disposal of available-for-sale financial assets	**1,567**	–
Exchange gain, net	**–**	4,817
	5,259	4,817

5. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	*HK$'000*
Interest expense on bank loans, bank overdrafts and other loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss	**12,471**	11,151

6. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging/(crediting):

	2009	2008
	HK$'000	*HK$'000*
Depreciation	**25,221**	28,723
Amortisation of land lease premium	**24**	23
Amortisation of intangible assets	**6,952**	6,365
Cost of inventories sold	**1,823,908**	1,599,691
Operating lease payments – land and buildings	**88,527**	80,479
Donation	**–**	50
Auditors' remuneration	**1,177**	1,534
Net foreign exchange gain	**–**	(4,817)
Staff costs (including directors' remuneration):		
Salaries, allowances and other benefits	**97,638**	93,576
Pension scheme contribution	**23,666**	20,949
Equity settled share-based payment expenses	**–**	14,761
	121,304	129,286
Unrealised (gain)/loss on changes in fair value of financial assets at fair value through profit or loss	**(6)**	9,881
Loss on disposal of property, plant and equipment	**3,718**	9,355

7. INCOME TAX

a) Income tax in the consolidated statement of comprehensive income represents:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Current tax		
PRC enterprise income tax	**5,143**	4,011
Under-provision of PRC enterprise income tax in prior years	**–**	222
Deferred tax		
Current year	**249**	(1,386)
Tax charge for the year	**5,392**	2,847

Reconciliation between tax expense and accounting profit at the applicable tax rate:

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation	**48,006**	258,721
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**8,544**	42,871
Income not subject to taxation	**(3,763)**	(156,049)
Expenses not deductible for taxation purposes	**1,730**	145
Effect of depreciation allowance	**(15)**	(25)
Utilisation of tax losses previously not recognised	**(3,243)**	(2,288)
Deferred tax assets not recognised	**1,890**	119,357
Deferred taxation	**249**	(1,386)
Under-provision in prior years	**–**	222
Tax charge	**5,392**	2,847

No provision for profit tax in Hong Kong has been made as the Group has no income assessable for profits tax for both years in Hong Kong.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2008: 25%).

b) Taxation in the consolidated statement of financial position represents:

	Group	
	2009	2008
	HK$'000	*HK$'000*
At 1 January	**(258)**	(669)
Deemed disposal of a jointly controlled entity	**–**	172
Acquisition of a subsidiary	**–**	(430)
Provision for the year		
– PRC taxation	**(5,143)**	(4,011)
(Under)/over-provision in prior years	**–**	(222)
Taxation paid for PRC enterprise	**4,419**	5,070
Exchange adjustment	**–**	(168)
At 31 December	**(982)**	(258)
Analysed for reporting purposes as:		
Tax recoverable	**567**	567
Tax payable	**(1,549)**	(825)
	(982)	(258)

8. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil).

9. EARNINGS PER SHARE

a) *Basis earnings per share*

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the Company are based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Profit:		
Profit attributable to equity holders of the Company	**26,303**	247,686

	Number of Shares	
	2009	2008
Shares		
Issued ordinary shares at 1 January	**1,725,902,336**	1,595,902,336
Effect of issue of new shares	**–**	120,409,836
Weighted average number of ordinary shares at 31 December	**1,725,902,336**	1,716,312,172

b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option scheme assuming they were fully exercised.

	2009	2008
	HK$'000	*HK$'000*
Weighted average number of shares (diluted)		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,725,902,336**	1,716,312,172
Effect of deemed issue of shares under the Company's share option scheme	**10,550,372**	11,900,279
Weighted average number of ordinary shares (diluted)	**1,736,452,708**	1,728,212,451

10. INVESTMENT PROPERTY

	2009	2008
	HK$'000	*HK$'000*
At valuation:		
At 1 January	**57,954**	–
Addition	**–**	57,142
Increase in fair value	**7,939**	812
At 31 December	**65,893**	57,954

The Group's investment property is situated at No. 88, Xi San Wan Road North, Hai Ding District, Beijing. It is held under a long term lease for rental purpose. It was stated at fair value as at 31 December 2009. The investment property was revalued on 31 December 2009 by Beijing Ding Xian Property Valuation Company Limited, an independent professional qualified valuer, on an open market, existing use basis.

11. ACCOUNTS RECEIVABLE

Majority of the Group's revenue are retail cash sales. Accounts receivable are non-interest bearing. The carrying amounts of accounts receivable approximate their fair values. At 31 December 2009, the aging of the Group's accounts receivable is analysed as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**43,348**	27,794
Due after 1 month but within 3 months	**407**	261
	43,755	28,055

Accounts receivable that are not impaired

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**43,755**	28,055

Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

12. SHORT TERM LOAN RECEIVABLES

(a) Age analysis

The aging analysis of short term loan receivables at the end of the reporting period is as follows:

	2009	2008
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**52,365**	–

(b) Short term loan receivables

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**52,365**	-

Short term loan receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

(c) All the Group's short term loan receivables in PRC were denominated in RMB. The short term loan receivables in PRC carry interest at a monthly effective rate of 0.5% mark up over the 6-month bank lending rate that is announced by the People's Bank of China.

13. ACCOUNTS PAYABLE

The aging of the Group's accounts payable is analysed as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**211,118**	222,075
Due after 1 month but within 3 months	**339,667**	235,312
	550,785	457,387

Accounts payable are interest free and are normally settled on 90-day terms. The carrying amounts of accounts payable approximate to their fair values due to their short term maturity and measured at amortised cost.

14. COMPARATIVE FIGURES

As a result of the application of HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

15. OTHER INFORMATION

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2009 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, CCIF CPA Limited. The unqualified auditor's report will be included in the Annual Report to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group was principally engaged in retail business in the PRC.

Operating Environment

Due to the impact of the global financial crisis, the PRC economy continued with a declining trend in the first part of the year under review. However, economic statistics started to pick up in the second quarter of the year showing modest recovery and growth. Over the year, macro and microeconomic indicators showed a significant rebound. In 2009, the gross domestic product ("GDP") of the PRC recorded a year-on-year increase of 8.7%. Retail sales in the domestic market increased steadily despite a slowdown in economic growth. In 2009, total retail sales of consumer goods in cities reached 8.5 trillion yuan, recording a year-on-year increase of 15.5%. Nationwide retail sales grew 15.5 % year on year to 12.53 trillion yuan.

Business Review

Competition in the PRC retail business remains intense, generic expansion, merger and acquisition, reorganization and consolidation are expected to be the major channels accelerating the pace of expansion for the retail industry. The Group, likewise, plans to speed up the development of its retail business through mergers and acquisitions. On 11 August 2009, the Group entered into a letter of intent with Shanghai XinMeng Investment Company Limited(上海信盟投資有限公司), pursuant to which the Group is granted a pre-emptive right for the possible acquisition of a supermarket chain in the PRC with over 150 retail outlets. However, as there was no further negotiation or progress regarding the possible acquisition, the parties to the letter of intent entered into a cancellation agreement, pursuant to which the letter of intent was terminated in January 2010. Though the acquisition of the supermarket chain is not proceeding, the Group is highly confident in the future and will continually look for good investment opportunities.

In response to business adversities under the financial tsunami, the Group adopted flexible measures to strengthen management and cost controls. Leveraging its competitive edge, the Group recorded satisfactory results for the year ended 31 December 2009. Revenue increased to 16.7% year-on-year to HK$2,073.1 million. Revenue on hypermarkets chain operation increased by 7.3% year-on-year to HK$1,904.5 million, while revenue of convenience stores chain operation amounted to about HK$165.0 million. The Group's net profit for the year amounted to approximately HK$26.3 million, representing a decrease to 89.4% as compared to last year. The decrease in net profit is due to net profit for the year 2008 included a non-recurring re-measurement gain on acquisition of an additional 20% in Hualian GMS Shopping Center Co., Ltd ("Hualian GMS").

The Group expanded its retail network in a steady yet positive manner, optimized inventory composition significantly and enhanced the quality of retail outlets substantially. Gross profit was about HK$249.2 million, a growth of approximately 40.5% from last year. During the year, the Group had committed tremendous efforts to convert our existing outlets into new operating models and open new convenience stores in Beijing. Currently, the Group's portfolio comprises about 190 retail outlets in Mainland China.

Looking ahead, the Chinese economy is maintaining stable growth and the outlook for the consumables market in China in the coming year remains positive. Despite uncertainty in the international economy, the PRC government's stimulus measures to drive domestic demand are maintaining the momentum of economic growth of the nation. This reinforces our belief that there is still ample room for extending the scale of operation and profitability of the Group. In an effort to further increase our market share, the Group will adopt a growth strategy as well as consolidate our leading position in the convenience store business in Beijing through rapid expansion of outlets and mergers and acquisitions. In addition, we will fully capitalize on business opportunities and aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and investors.

Future Outlook

The Group will focus on strengthening the brand name & market leadership of Hi-24 convenience store chain and expect the number of outlets of Hi-24 to reach 300 in 2011. The Group has started a new business of providing short term loan finance in PRC in 2009. More resources will be deployed in this new business as the profitability level is very attractive. Meanwhile, the Group is also evaluating various business plans and will inform shareholders and potential investors in due course.

Financial Review

Revenue, Gross Profit and Expenses

Revenue for 2009 was about HK$2,073.1 million, representing an increase of HK$296.1 million or 16.7% as compared with HK$1,777.0 million in 2008. Gross profit for 2009 was approximately HK$249.2 million, representing an increase of HK$71.8 million or 40.5% as compared with HK$177.4 million in 2008. Gross profit margin for 2009 was 12.0%, as compared to 10.0% in 2008. Selling and distribution expenses and administrative expenses for the year represented 8.8% and 13.9% of turnover respectively, as compared with 6.8% and 16.9% of last year.

Other Revenue and Other Net Income

Other revenue and other net income for 2009 was approximately HK$273.9 million, representing an increase of 9.3% over HK$250.6 million for 2008. The increase in other revenue and other net income was mainly attributable to reversal of previous impairment loss and increase in rental income from leasing of shop premises.

Finance Costs

The Group's finance costs for 2009 were approximately HK$12.5 million, representing a increase of 11.6% over HK$11.2 million for 2008.

Profit for the Year Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for 2009 was approximately HK$26.3 million, representing a decrease of 89.4% as compared with HK$247.7 million in 2008.

Capital Structure, Liquidity and Financial Resources

The Group's total assets increased by 14.6% to HK$2,087.8 million (2008: HK$1,822.0 million), mainly comprising property, plant and equipment of approximately HK$70.2 million, investment property of approximately HK$65.9 million, intangible assets of approximately HK$160.5 million, goodwill of approximately HK$378.0 million, available-for-sale investments and financial assets at fair value through profit or loss of approximately HK$41.0 million, inventory of approximately HK$223.0 million, accounts receivable of approximately HK$43.8 million, other receivables, short term loan receivables, deposits and prepayments of approximately HK$446.8 million and bank deposits and cash of about HK$650.0 million.

The Group's bank borrowings were about HK$173.2 million. The debt maturity profile of the Group as at 31 December 2009 is analyzed below:

	2009	**2008**
	HK$ Million	*HK$ Million*
Within 1 year	152.1	169.6
After 1 year but within 5 years	20.5	–
Over 5 years	0.6	–
	173.2	169.6

The following asset of the Group has been pledged for securing bank loan facilities:

	2009	**2008**
	HK$ Million	*HK$ Million*
Investment property	65.9	58.0

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2009. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.

Financial Risk Management

The Group's major financial instruments include cash and cash equivalents, equity investments, borrowings, accounts receivable and accounts payable. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(i) Currency Risk

The Group has operations in the PRC and the majority of the Group's revenues, expenses and cashflows are denominated in Renminbi (RMB) and HK Dollars (HK$). Assets and liabilities of the Group are mostly denominated in RMB, HK$ or United States Dollars (US$). Any significant exchange rate fluctuations of foreign currencies against Renminbi may have financial impact on the Group. To reduce currency risk exposure, the Group matches assets with borrowings in the same currency to the extent possible.

(ii) Interest Rate Risk

The company is exposed to cash flow interest rate risk in relation to variable-rate borrowings. It is the Company's policy to maintain the interest rate of its borrowings at Benchmark Borrowing Rate of the People's Bank of China so as to minimize the fair value interest rate risk.

The company's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the company's RMB borrowings.

(iii) Credit Risk

The Group has no significant concentrations of credit risk. Most of the sales transactions are settled on cash basis or by credit card payment. The carrying amount of loan and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. The directors are of the opinion that adequate provision for uncollectible receivables has been made in the audited consolidated financial statements. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

(iv) Liquidity Risk

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a source of liquidity.

During the year under review, the Group did not use any financial instrument for hedging purpose and the Group did not have any hedging instrument outstanding for the year ended 31 December 2009.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. Total equity is calculated as interest-bearing bank loans less cash and cash equivalents. Total equity represents equity attributable to the equity holders of the Group. The debt-and-equity analysis of the Group as at 31 December 2008 and 31 December 2009 are as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Interest-bearing bank loans	**173,189**	169,587
Less: Cash and cash equivalents	**(649,688)**	(550,385)
	(476,499)	(380,798)
Total equity	**841,049**	781,787

As at 31 December 2008 and 31 December 2009, the Group had no net debt.

Fair Value Estimation

The carrying values less impairment provision of the financial assets and the carrying values of the financial liabilities are assumed to approximate their fair values.

Human Resources Management

As at 31 December 2009, the Group employed approximately 4,500 full time staff in Mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the year were approximately HK$121.3 million. The Group continued to recruit high calibre people and provided continuing education and training for employees to help upgrade their skills and knowledge as well as develop team spirit on an on going basis. Competitive remuneration packages are structured to be commensurate with individual responsibilities, job duties, experience, performance and prevailing industry practice, and are regularly reviewed by the management. In addition, allowances and performance bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical coverage as well as share option scheme.

Event Subsequent to Financial Year End

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B"), an indirect wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Bailian Hong Kong Limited, pursuant to which K.P.B. has conditionally agreed to sell and Bailian Hong Kong Limited has conditionally agreed to purchase the entire issued share capital of K.P.I. (BVI) Retail Management Company Limited. The consideration for the disposal is RMB441,760,000 (equivalent to approximately HK$502 million), which shall be satisfied in cash in the following manner:

(a) RMB132,528,000 (equivalent to approximately HK$150.6 million) shall be payable as initial deposit within three days upon release of this announcement;

(b) RMB88,352,000 (equivalent to approximately HK$100.4 million) shall be payable as further deposit within three days upon despatch of the notice convening the EGM to the shareholders; and

(c) RMB220,880,000 (equivalent to approximately HK$251 million) shall be payable upon completion of the agreement.

K.P.I. (BVI) Retail Management Company Limited is an investment company incorporated in the British Virgin Islands with limited liability. The assets of the K.P.I. (BVI) Retail Management Company Limited comprise its 100% equity interests in Bestjoy International Limited (which is an investment company incorporated in the British Virgin Islands with limited liability holding 20% equity interests in Hualian GMS) and its 40% direct equity interests in Hualian GMS. Hualian GMS is a sino-foreign joint venture established in the PRC principally engaged in hypermarket chain operation in the PRC.

The background to the proposed agreement is as follows:

The Group is principally engaged in retail business in the PRC including supermarkets and convenience chain stores, sales of food products and provision of short term financing services.

Hualian GMS was initially established by the Group as a jointly controlled entity in 1998. Subsequently, the Group acquired an additional 20% equity interests in Hualian GMS in January 2008, as a result of which the Group gained control of Hualian GMS and extended its hypermarket business in the PRC. Hualian GMS operates 18 hypermarket outlets mainly in Shanghai and nearby provinces such as Jiangsu and Zhejiang. Although Hualian GMS has been making profits in past years, the Board considered competition in the retail business in Shanghai as being very intense and the Group would like to devote more time and resources to strengthening its market leadership in its convenience store business and other business in Beijing. Currently the Group has more than 170 convenience store outlets operating 24 hours daily in Beijing city alone, which is the largest convenience chain store in terms of number of outlets in Beijing. The Board considered the return from its divestment attractive. The disposal represents an opportunity for the Group to realize part of its investment by deploying its time and resources to its convenience store business in Beijing and other cities in the PRC in order to maintain or even enhance its market share.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers that good corporate governance practices to be essential to the promotion of shareholder value and investor confidence.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

Throughout the year under review, the Company has complied with the code provisions as set out in the CG Code, save for the deviations from code provisions A.1.1, A.2.1 and A.5.1.

Code provision A.1.1 stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met two times during the year ended 31 December 2009 for approving the final results for the year ended 31 December 2008 and interim results for the period ended 30 June 2009.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr Cheung Siu Lam currently holds the offices of Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

Code provision A.5.1 stipulates that every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary to ensure that he has a proper understanding of operations and business of the issuer and his responsibilities under statute, common law, Listing Rules, applicable legal requirements and other regulatory requirements and the business/governance policies of the issuer.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in Appendix 10 of the Listing Rules, regarding directors' transactions in securities of the Company. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers throughout the year ended 31 December 2009.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company, which comprises all independent non-executive directors, has reviewed the consolidated financial statements of the Group for the year, including the accounting principles and accounting standards adopted by the Company, and discussed matters relating to auditing, internal controls and financial reporting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 June 2010 to Monday, 21 June 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited of 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Monday, 14 June 2010.

SCOPE OF WORK OF CCIF CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2009 as set out in the preliminary announcement have been agreed by the Group's auditor, CCIF CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.kpi.com.hk). The 2009 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

ACKNOWLEDGEMENT

The Board would like to take this opportunity to express our sincere thanks to all stakeholders for their supports during the year.

On behalf of the Board
K.P.I. Company Limited
Cheung Siu Lam
Chairman and CEO

Hong Kong, 16 April 2010

As at the date of this announcement, the Board comprised Mr Cheung Siu Lam, Mr Chan Yuk Ming and Madam Lo Wan as executive Directors, Mr Liu Hui as non-executive Director, and Mr Wang Jian Sheng, Mr Chan Chun Keung and Mr Tsang Kwok Wai, as independent non-executive Directors.